

## **CMS Dashboard <sup>BETA</sup> Inpatient Prospective Payment System (IPPS) Glossary**

**Average Inpatient Payment Per Claim:** Total Inpatient Payment divided by Total Inpatient Volume.

**Disproportionate Payment:** The operating disproportionate share amount applicable to the bill. If the hospital meets various criteria under the IPPS DSH policies and formulas, it receives a percentage add-on for each case paid through the PPS. This percentage varies depending on several factors, including the percentage of low-income patients served. It is applied to the DRG-adjusted base payment rate.

**DRG Payment:** Hospitals submit a bill for each Medicare patient they treat to their Medicare fiscal intermediary (a private insurance company that contracts with Medicare to carry out the operational functions of the Medicare program). Based on the information provided on the bill, the case is categorized into a diagnosis related group (DRG), which determines how much payment the hospital receives.

The base payment rate is comprised of a standardized amount, which is divided into a labor-related and non-labor share. The labor-related share is adjusted by the wage index applicable to the area where the hospital is located and if the hospital is located in Alaska or Hawaii, the non-labor share is adjusted by a cost of living adjustment factor. This base payment rate is multiplied by the DRG relative weight.

**Fiscal Year:** The fiscal year for the government begins on October 1st and ends on September 30th of the following year.

**Indirect Medical Education (IME) Payment:** Section 1886(d)(5)(B) of the Social Security Act provides that prospective payment hospitals that have residents in an approved graduate medical education (GME) program receive an additional payment for a Medicare discharge to reflect the higher patient care costs of teaching hospitals relative to non-teaching hospitals. The regulations regarding the calculation of this additional payment, known as the indirect medical education (IME) adjustment, are located at 42 CFR §412.105.

If the hospital is an approved teaching hospital it receives a percentage add-on payment for each case paid through the PPS. This percentage varies depending on the ratio of residents-to-beds.

**Inpatient Hospital:** Claims are final action inpatient discharges for the second quarter of 2006 through Fiscal year 2009. Only hospitals paid using the Inpatient Prospective Payment System (IPPS) are included. The IPPS pays the claims based on a Diagnosis Related Group (DRG).

**Inpatient Prospective Payment System (IPPS):** Medicare Part A (Hospital Insurance) based on prospectively set rates. This payment system is referred to as the inpatient prospective payment system (IPPS). Under the IPPS, each case is categorized into a diagnosis-related group (DRG). Each DRG has a payment weight assigned to it, based on the average resources used to treat Medicare patients in that DRG.

CORE ELEMENTS OF A PPS PAYMENT

- The standardized amounts, which are the basic payment amounts.
- A wage index to account for differences in hospital labor costs.
- The DRG relative weights, which account for differences in the mix of patients treated across hospitals.
- An add-on payment for hospitals that serve a disproportionate share of low-income patients.
- An add-on payment for hospitals that incur indirect costs of medical education.
- An additional payment for cases that are unusually costly, called outliers.

All of these factors are updated each year through notice and comment rulemaking. The dashboard excludes PPS exempt units (rehabilitation and psychiatric) and waiver state (Maryland) hospitals and territories not paid under PPS.

**Major Diagnosis Categories:** The Major Diagnostic Categories (MDC) are formed by dividing all possible principal diagnoses (from -ICD-9-CM) into 25 mutually exclusive diagnosis areas.

**Median:** The number separating the higher half of a sample from the lower half.

**Outlier Payment:** The operating cost outlier payment is the costs incurred by the hospital for the case are evaluated to determine whether it is eligible for additional payments as an outlier case. This additional payment is designed to protect the hospital from large financial losses due to unusually expensive cases. Any outlier payment due is added onto the DRG-adjusted base payment rate.

**PPS Capital Payment:** The total amount payable for capital PPS for the claim. This is the sum of the capital specific portion, federal specific portion, outlier portion, disproportionate share portion, indirect medical education portion, exception payments, and hold harmless payments.

**Total Inpatient Payment Amount:** The claim payment amount that Medicare pays based on the DRG. This payment amount includes the DRG outlier approved payment amount, the disproportionate share, the indirect medical education, the DRG amount, and any capital payments.

**Total Inpatient Volume:** The distinct count of inpatient PPS discharges.